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**Management Letter  
For Fiscal Year 2002 Audit of  
Schedule of Non-Entity Assets, Non-Entity  
Costs and Custodial Revenue**

OIG-03-042

December 27, 2002



**Office of Inspector General**

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**The Department of the Treasury**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OFFICE OF  
INSPECTOR GENERAL

December 27, 2002

MEMORANDUM FOR RICHARD L. GREGG, COMMISSIONER  
FINANCIAL MANAGEMENT SERVICE

FROM: William H. Pugh, *William H. Pugh*  
Deputy Assistant Inspector General  
for Financial Management and Information  
Technology Audits

SUBJECT: Management Letter for Fiscal Year 2002 Audit  
of Schedule of Non-Entity Assets, Non-Entity Costs  
and Custodial Revenue

I am pleased to transmit the management letter in support of the audited Financial Management Service's (FMS) Fiscal Year (FY) 2002 Schedule of Non-Entity Assets, Non-Entity Costs and Custodial Revenue (the Schedule). This Schedule was audited by Clifton Gunderson LLP, an independent public accountant (IPA).

As part of its audit, the IPA issued the accompanying management letter that discusses various issues that were identified during the audit, which were not required to be included in the audit report.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Louis C. King, Director, Financial Audits at (202) 927-5774.

Attachment



Commissioner  
Financial Management Service  
U. S. Department of the Treasury  
401 14<sup>th</sup> Street, S. W.  
Washington, D. C. 20227

We have completed the audit of the Schedule of Non-Entity Assets as of September 30, 2002, and Non-Entity Costs and Custodial Revenue for the year ended September 30, 2002 (the Schedule) of the Financial Management Service (FMS), a bureau of the Department of Treasury (Treasury). In connection with our audit, we have issued a report dated November 5, 2002 that included internal control structure matters noted in our audit. During the course of our audit, we also had the opportunity to observe various accounting, operating and procedural matters as they related to the amounts reflected in the Schedule. Based on our audit, we would like to make the following observations and suggestions. Even though the matters are not considered a "Reportable Condition" as defined by standards issued by the American Institute of Certified Public Accountants, the matters are still important in the overall internal control structure utilized by FMS to prepare the aforementioned Schedule. This letter is hereby referred to as our "Financial Matters Management Letter." Additionally, the status of prior year audit comments are reported in the attached Appendix.

## 1. Financial Analysis

**Condition:** In connection with our audit, we obtained FMS's Schedule at June 30 and again at September 30. Such Schedules were completed in a timely manner; however, FMS did not prepare a complete analysis of the fluctuations in the balances and activity reflected in the Schedule as compared to the prior period. Even though FMS's analysis of fluctuations improved with respect to the September 30 Schedule, FMS still was unable to readily provide us with support for the explanations given for certain fluctuations.

**Recommendation:** Financial analysis has become more critical in the preparation of timely and accurate financial statements than it has been in the past given the accelerated quarterly and annual financial reporting deadlines. Accordingly, we recommend financial analysis procedures be expanded throughout the year so that management can more fully understand the results of transactions reflected in the Schedule. FMS management should investigate unusual changes from year to year and research explanations for significant deviations on a quarterly basis. After analyzing the results of this interim review process, FMS could then adjust its accounting procedures before the year-end Schedule preparation process to correct the cause of errors identified in such interim Schedules. This process could reduce the time needed to close the accounting records and prepare the Schedule at September 30<sup>th</sup>.

Such analyses should be documented and provided to management in a timely manner after each period end. It should include a comparison of current period Schedule amounts to those reflected in prior periods, and a determination of the reasonableness of current period amounts given management's expectations of results. Where possible explanations should be quantified and documentation supporting the fluctuation explanation be available for review, if necessary. The study of fluctuations from year to year and the development of expectations will facilitate a more thorough understanding of the reported amounts and a higher confidence level of the Schedule's accuracy, both as to completeness and timing of the recording of transactions. Sources of information for the development of expectations could include:

- Financial information for comparable prior periods, adjusted for any changes in conditions, such as significant events and accounting changes;
- Anticipated results, including budgets, forecasts, and estimates of annual results from interim data;
- Relationship among elements of operating information within the period;
- Information regarding the environment in which FMS and its customers operate and any other economic factors;
- Changes in Treasury Managed Accounts, the relevant provisions of laws and regulations and customer agreements or transaction patterns.

## 2. Accrual Accounting

**Condition:** FMS did not fully analyze whether the accruals recorded provided for a proper cut-off as of September 30, 2002 in accordance with Generally Accepted Accounting Standards as stated in SFFAS No. 1, *Accounting for Selected Assets and Liabilities* and SFFAS No 5, *Accounting for Liabilities of the Federal Government*. In FMS's first draft of its September 30 Schedule the Receivable on Deposit of Earnings, FRS was understated by approximately \$290 millions of September 30, 2002; and the accrual for Money's Erroneously Received and Covered relating to Harbor Maintenance Tax Export Refunds was understated by \$502 million as of September 30, 2002.

**Recommendation:** We recommend that FMS review each of the Treasury Managed Accounts under its control and determine applicability of period end accruals. FMS should evaluate the need for accruals at least quarterly for these accounts based on the facts and circumstances relevant to that period end. This review should be fully documented and reviewed by the person ultimately responsible for the accuracy of the Schedule.

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This information is intended solely for the information and use of the management of FMS, Treasury, the Treasury Office of Inspector General, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to have the opportunity to discuss the items contained in this letter.

*Clifton Gundersen LLP*

Calverton, Maryland

November 5, 2002

cc: Office of Inspector General  
U. S. Department of Treasury

**DEPARTMENT OF TREASURY,  
FINANCIAL MANAGEMENT SERVICE  
FINANCIAL MATTERS MANAGEMENT LETTER  
APPENDIX  
NOVEMBER 5, 2002**

**STATUS OF RECOMMENDATIONS FROM PRIOR YEAR  
FINANCIAL MATTERS MANAGEMENT LETTER**

**DEPARTMENT OF TREASURY,  
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The following list consists of internal control weaknesses identified in connection with the audit for the fiscal year 2001, and the status of such matters as of the completion of our fiscal year 2002 audit. We determined the status of the recommendations based on our audit fieldwork at the Financial Management Service (FMS) and discussions with FMS officials. Action has been completed on all prior year recommendations.

<b>TMA #</b>	<b>Reports/Recommendations</b>	<b>Action Complete</b>	<b>Action in Progress</b>	<b>Action in Planning or Planning Complete</b>	<b>No Specific Action Planned</b>
TMA-1	<b><u>Allowance for Estimated Uncollectible Amounts</u></b> FMS needs to improve its process for collections and the evaluation of collectibility of accounts. Accounts should be formally confirmed with appropriate Federal agencies on a quarterly basis and differences of opinion on the validity of balances should be resolved on a timely basis.	X			
TMA-2	<b><u>Claims Payment Accrual Accounting</u></b> FMS should enhance its accounting procedures to include steps to identify or estimate claims submitted by a Federal Agency to FMS for payment as of September 30 <sup>th</sup> . This process should include an accrual for claims even though such payment request may not physically have been received by September 30 <sup>th</sup> , but was officially signed and approved by the Federal Agency as of September 30 <sup>th</sup> .	X			
TMA-3	<b><u>Accounts Receivable Subsidiary Ledger</u></b> FMS should establish appropriate written procedures for generating valid supporting documentation for "adjustments" and "direct receipts" transactions in account symbol 203101.	X			



**DEPARTMENT OF TREASURY,  
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<b>TMA #</b>	<b>Reports/Recommendations</b>	<b>Action Complete</b>	<b>Action in Progress</b>	<b>Action in Planning or Planning Complete</b>	<b>No Specific Action Planned</b>
TMA-4	<u><b>Check Receipt Procedures</b></u> FMS should create formal check receipt procedures to ensure the proper control over checks received.	X			
TMA-5	<u><b>Deposit of Earnings, Federal Reserve System</b></u> FMS should revise Volume II of the Treasury Financial Manual Part 8 – Chapter 2000 to accurately describe the nature of these FRS transactions. In addition, FMS should reemphasize the importance of maintaining complete documentation on each account it manages. This documentation should include: (1) background information (including relevant legislation); (2) a description of the substance of the transaction and the journal entries used to record transactions into the applicable ledgers; (3) a description of controls related to the account; and (4) management approval of this documentation.	X			